Best Practices

An Executive Summary

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Organizations are experiencing continuous change in today's business environment. Drivers such as technology, global markets, deregulation, intense competition, new products and services, environmental issues, and societal expectations have increased the complexity of business and rate of change. In response, internal auditing is expanding the number and types of services offered to assist in achieving the organizational objectives.

Incorporation of best practices is one way to address change and stay on the leading edge. Internal auditors need to be knowledgeable about a wide array of issues and practices and then choose those that are relevant and valuable to the organization. Best practices can expand the body of knowledge, improve operations, provide a means of benchmarking, and serve as a catalyst for new ideas and operating procedures. Continuous improvement and reengineering can be enhanced by organization-wide best practices.

Change intensifies the need to benchmark and be knowledgeable about an expanding population of best practices. Selection of best practices must be put in the context of size, industry, country, scope of operations, and degree of regulation.

The following list is an executive summary of a few best practices identified through discussions with internal auditors from a wide range of organizations.

REPORTS

Many directors prefer audit reports that are action-oriented, provide less detail, and focus on action plans rather than the problem. The shorter reports can be issued on a more timely basis because the elements of a traditional finding are not included in the report. In addition, problems can be addressed faster because less time is spent debating issues thus enhancing the relationship between auditing and the auditee.

SELF-DIRECTED AUDIT TEAMS

Use of self-directed audit teams provides more autonomy to the teams with less supervision and review. The teams are in charge of the audit process and identify the risks, develop the audit program, and make all contacts in connection with the audit. Auditors typically embrace the opportunity to take ownership of the audit process. This approach also enhances understanding and career development.

RECRUITING

The skills and competencies needed by auditors are changing. Behavioral interviews are helpful in identifying candidates who possess desired attributes such as interpersonal and unstructured problem-solving skills and the technical background necessary for the job. The "Competency Framework for Internal Auditing"(CFIA) provides a good foundation document to identify attributes for new hires.

CERTIFICATION

Certification is increasingly important because it indicates knowledge and a level of competency in a particular area. Its importance is demonstrated in that certification is often a job requirement or a pre-employment commitment. As the role of the internal auditor changes, management will rely more on internal auditors as assurance professionals. Many organizations prefer multiple and diverse certifications across individuals. Certifications such as CIA and CISA are most relevant and highly desirable, as are industry-specific and activity-related certifications.

TECHNOLOGY

Auditors use a variety of computer applications to conduct and manage audits. Computer aided audit techniques and electronic working papers enhance the audit process through data mining, flow-charting, simplifying administration, audit coordination, and data analysis. Specifically, these tools allow the audit staff to query company regulations, policies and procedures, standard audit programs, risk analysis, audit reports, findings by types, and internal control manuals. Software applications also can assist in audit scheduling, staff scheduling, tracking time, budgeting, and monitoring the status of audits.

AUDITS

One trend is to audit fewer units and focus on business processes rather than traditional location, activity, or function audits. This approach involves a top-down orientation from goals to risk management. The majority of audit time is allocated to business process audits and value-added audits that focus on issues related to the business plan, The key to success is to align the audit plan with the business plan.

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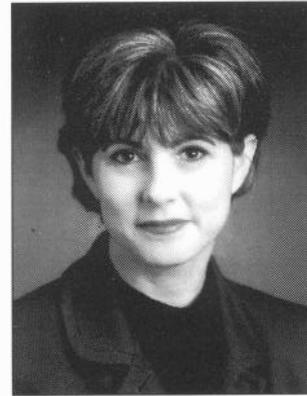
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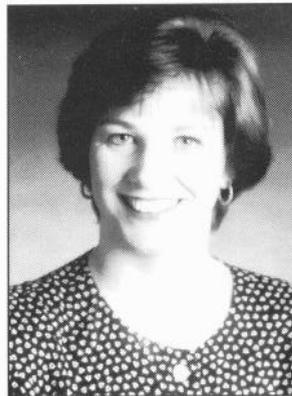
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CONTINUOUS MONITORING

Continuous monitoring moves internal auditing more into a consultative role and serves as valuable input to the audit plan. Implementation involves visiting with vice presidents or area/business unit heads periodically (e.g., each quarter) to discuss risks, internal controls, status, changes, opportunities for improvement, and plans for improvement. This continuous monitoring approach assists audit management in keeping abreast of business issues while constantly assessing risk and allocation of audit resources.

AUDIT EMPHASIS

As operations become more dynamic and complex, many audit directors are shifting audit emphasis from detection to prevention. By focusing on prevention (strategic planning, monitoring, and preparation), potential weaknesses and risk areas can be identified and controls implemented earlier in the process. This approach adds value while improving competitiveness and operating efficiency. Thus, the audit function will be involved in previewing tactics and strategies to provide timely input.

USES OF CONTROL MODELS

Many directors have opted for use of control models such as COSO. CoCo, or CSA as a foundation for the audit process. Often these approaches use a risk-control matrix to determine that the relevant risks are identified and appropriately controlled through risk management.

INTEGRATED AUDITOR

The integrated auditor concept has been a buzzword for the last decade. However, the term has new meaning as organizations recruit systems technicians and train them in internal auditing. This integration allows for a much more thorough audit of the system than is typically provided by auditors trained in systems. Given that systems has joined accounting as the language of business, the related knowledge of systems is probably more critical and relevant today than knowledge of accounting.

CONTROL SELF-ASSESSMENT

CSA is indeed an element of best practices. Auditors are using CSA to partner with management and to serve as an expanded preliminary survey. Facilitated sessions with management are used to identify significant audit issues and enhance the audit process. These sessions serve to inform and educate management as to the role of internal audit in assisting them.

TRAINING

Several audit groups have reengineered their orientation and training programs to reflect a top-down business orientation. One large construction organization use a business-related "mock audit" to introduce new members to the audit process. The mock audit includes every major facet of the audit process from planning to reporting and expedites the learning process in a controlled environment.

In summary, internal auditing has never been more attractive as a profession for entry-level positions or for experienced individuals entering internal auditing from within the organization or as an external hire. The vitality of the profession lies in its diversity. However, a fine line exists between diversity and commonality. Too much commonality stifles creativity and change while too much diversity strains the ability to identify with other internal auditors as a profession bound by common threads.

Historically, the common thread in internal auditing was the evaluation of controls. Given the dynamic environments of modem organizations, the future threads may also include risk assurance, value-added consulting, and change facilitation. The sharing of best practices among audit professionals can serve as a means of unifying the various internal audit roles into one dynamic profession. Weaving the many threads into one profession may be a significant challenge.

The recently published "Competency Framework for Internal Auditing" provides an overview of present and future best practices and factors that will drive these practices.